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CONFIDENTIAL

S-6679

CIA/OER/S-06679-74

25X1 [redacted]

13 December 1974

MEMORANDUM FOR: [redacted] 25X1

SUBJECT : Foreign Demand for US Ferrous Scrap in 1975

1. Attached is the information you requesed on foreign demand for US ferrous scrap in 1975. Termination of the US quota system for ferrous scrap is not expected to result in any significant increase in imports by Japan, South Korea, or Taiwan. Canada and Mexico probably would boost imports somewhat above present quota levels. Demand for scrap from the EC is likely to decline about 8% in the first half of 1975 over the last half of 1974. These countries currently account for about 80% of total US ferrous scrap exports.

2. The PRC, a newcomer to the US scrap market, could boost imports in 1975 by some 300,000 tons above the level for 1974. This would depend, however, on the success of some face-saving arrangement over China's current refusal to purchase US scrap under the present quota system.

3. Except for the attachment on China, which is classified Confidential, the remainder of this information is unclassified. Please do not hesitate to call me if OER can be of further assistance on this matter.

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Office of Economic Research

Attachment:
As stated

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US DOMESTIC STEEL SCRAP PRICES - 1973 - November 1974

(Composite price for Chicago, Philadelphia, Pittsburgh)

1973	$ per long-ton
January	49.5
February	49.5
March	47.7
April	46.5
May	51.6
June	55.0
July	55.0
August	55.1
September	58.5
October	67.4
November	79.3
December	79.1
1974	
January	81.3
February	104.3
March	120.8
April	123.1
May	97.9
June	110.6
July	126.7
August	114.3
September	114.4
October	119.0
November	101.0

FERROUS SCRAP* EXPORTS FROM THE U.S.

(thousand short tons, million US $)

	1972				1973				Jan - Jul 1974			
	Q	Q %	$	$ %	Q	Q %	$	$ %	Q	Q %	$	$ %
Far East & Oceania	3,536	47.1	115,656	45.9	7,115	62.5	383,731	63.5	3,162.8	55.2	291,965.2	59.4
Japan	2,330	31.1	72,171	28.6	4,681	41.2	235,572	38.9	1,788.7	31.3	162,196.2	33.0
Korea	453	6.0	16,567	6.6	866	7.6	49,814	8.2	580.7	10.1	62,451.7	12.7
Taiwan	552	7.4	19,425	7.7	935	8.2	58,233	9.6	524.8	9.2	45,843.8	9.3
PRC	0	0	0	0	435	3.8	24,514	4.0	190.8	3.3	12,492.0	2.5
Western Europe	1,626	21.7	60,321	23.9	1,886	16.6	108,649	17.9	1,101.8	19.3	106,296.9	21.6
Spain	870	11.6	25,678	10.2	1,150	10.1	59,199	9.8	662.0	10.9	54,982.8	11.2
EEC	758	10.1	25,189	10.0	570	5.0	39,313	6.5	396.3	6.9	44,644.8	12.3
Latin America	1,242	16.6	43,537	17.2	1,419	12.5	77,644	12.8	827.4	14.5	60,360.8	12.3
Mexico	622	8.3	24,184	9.6	1,053	9.3	59,149	9.8	607.3	10.6	40,820.1	8.3
Canada	941	12.6	27,307	10.8	813	7.2	27,391	4.5	586.3	10.3	29,198.5	5.9
Other	147	2.0	5,623	2.2	135	1.2	7,889	1.3	37.7	.7	3,977.5	.8
TOTAL	7,492	100.0	252,444	100.0	11,368	100.0	605,304	100.0	5,716.0	100.0	491,798.9	100.0

*SITC
282001 No. 1 Heavy Melting Steel Scrap, except Stainless
2[illegible]02 No. 2 Heavy Melting Sttel Scrap, except Stainless
[illegible]03 No. 1 Bundles Steel Scrap, except Stainless
2[illegible]004 No.2 Bundles Steel Scrap, except Stainless
282005 Borings, Shovelings & Turnings, Iron or Steel, except Stainless
282006 Stainless Steel Scrap
2820065 Shredded Steel Scrap
2820078 Other steel scrap
282008 Iron Scrap, except borings, shovelings and turnings
282009 Rerolling Materials of Iron or steel
735800 Ships boats, and other vessels for scrapping

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JAPANESE, CANADIAN, SOUTH KOREAN AND TAIWANESE US SCRAP IMPORTS REQUIREMENTS FOR 1975

Termination of the US quota system for ferrous scrap exports is not expected to result in any significant increase in scrap imports by Japan, South Korea, or Taiwan. Canada would probably boost imports somewhat above present quotas.

The Japan steel industry has projected crude steel output for first half of 1975 at 56-58 million tons -- unchanged from the 1974 first half. Scrap imports from the US, which account for some 73% of Japan's total scrap imports, are estimated at 1.4 million tons for first half 1975 -- up 22% over 1974. Imports during the second half are expected to decline to some 1.2 million, totaling some 2.6 million tons for the full year -- about the same level as 1974. Imports in the first half are expected to increase because Japanese steel producers want to replenish scrap inventories which fell some 1 million tons in 1974.

Canada, which imports virtually all of its scrap from the US, should import at least its quota level and possibly more if restrictions were lifted. Canada's steel industry has been operating at near capacity levels and is expected to continue this level of operation through 1975. Canada is a net importer of steel and any softening in domestic steel

demand probably would be reflected in reduced imports.

South Korea also has a relatively strong domestic steel market, and this coupled with additional steel making capacity in 1975 is expected to increase scrap imports from the US some 100,000 tons during the first half 1975, roughly what present quotas would permit. Taiwan, however, is not expected to measurably change its 1974 level of scrap imports from the US.

SCRAP IMPORTS FROM US

(1000 metric tons)

	1974		1975	
	First Half	Second Half	First Half	Second Half
Japan	1,147	1,508	1,400	1,200
Canada	450	450	450	450
South Korea	499	348	550	550
Taiwan	431	370	325	350

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Impact of Termination of US Export Controls on Latin American Ferrous Scrap Imports

Termination of US export controls on ferrous scrap probably would not lead to a significant increase in Latin American imports of US scrap in 1975.

Mexico, which absorbs about 80% of US ferrous scrap exports to Latin America, was able to obtain virtually all its 1974 needs from the United States under its quota. In 1975 according to a December 1974 estimate by the Mexican Iron and Steel Institute, the Mexican steel industry's requirement for imported scrap will amount to about 1.1 million short tons, only slightly above 1974 imports from the United States. Since Mexican stocks are adequate -- amounting to nearly 20% of yearly requirements -- termination of US controls is unlikely to induce a significant further expansion of Mexican imports of US ferrous scrap.

Mexican Imports and Stocks of US Ferrous Scrap

Million Short Tons

	Imports	Stocks
1973	1.07	--
1974	.9 (estimate)	0.2 (November)
1975	1.10 (requirement)	--

EC DEMAND FOR US SCRAP - 1975

Because of softening demand, the European Coal and Steel Community (ECSC) estimates that EC steel production will increase only slightly in 1975. In view of the continued deepening of the present recession, we believe that steel output probably will decline slightly from this year's level -- especially through the first half of 1975.

The pace of new orders for steel is already softening. Order backlogs should be worked off by early 1975, resulting in an easing of steel output and demand for scrap inputs. Changes in the composition of demand, occasioned by a marked slump in automobile and appliance sales, has pushed steel producers more strongly into heavy-product areas and out of rolled steel. This shift has resulted in more use of continuous casting operations and a corresponding decline in reliance on electric furnaces, which heavily consume scrap.

As a result of these recent trends, scrap prices have declined sharply. European quotations for US steel scrap fell to $103.83 per ton in November -- the lowest level since February. Prices are expected to decline further in early 1975.

The EC Commission Steel Office is forecasting a US scrap import requirement of approximately 365,000 tons for the first half of 1975 -- 8% lower than that for the last half of 1974. This estimate is based on a slight increase in steel output during the period. In the more likely event that steel output declines slightly, first-half imports from the United States would fall to about 350,000 tons.

Effective import demand for US scrap was restricted in 1974. Imports probably would have been higher than the quota limit at least through the third quarter. The decline in import demand forecast for the first half of 1975 nonetheless should hold true even if US export controls are lifted, because of the softening in overall steel demand and the changing composition of output.

Scrap import needs vary widely by country. West Germany, Belgium, and the Netherlands are net exporters of scrap and require no imports from the US. France generates much of its own scrap and relies on EC scrap exporters for most of the rest. The United Kingdom is a net importer of scrap even though it exports to other EC nations. Italy is a large scrap importer and depends heavily on the US.

ESTIMATED EC REQUIREMENTS OF US SCRAP
FIRST HALF 1975

(Thousand Metric Tons)

	EC Commission Estimate	CIA Estimate
Italy	263 - 272	252 - 261
United Kingdom	82 - 91	78 - 87
France	9 - 14	8 - 13
West Germany	0	0
Netherlands	0	0
Belgium	0	0

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US COMPOSITE SCRAP PRICES, EUROPEAN QUOTATIONS

(dollars/ton)

1973	January	$ 46.17
	February	50.83
	March	48.17
	April	47.17
	May	50.83
	June	54.17
	July	54.17
	August	54.17
	September	57.63
	October	66.17
	November	75.17
	December	80.83
1974	January	76.17
	February	92.50
	March	112.50
	April	144.50
	May	111.00
	June	108.17
	July	111.33
	August	125.17
	September	114.41
	October	119.33
	November	103.83

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PRC Demand for US Scrap - 1975

Total Scrap Demand

The demand for iron and steel scrap by the PRC (People's Republic of China) is expected to rise over the next few years, but US firms may have difficulty dealing with China until differences over earlier contracts are settled.

China's imports of scrap began in 1966 and reached a total of 360,000 tons in 1972. In 1973, largely because of the initiation of large imports from the US -- 434,000 tons -- total imports jumped to 640,000 tons. PRC scrap imports from 1974 are expected to total 400,000 - 500,000 tons.

The PRC will probably import increasing amounts of scrap in future years because:

1) the sectors of the steel industry which consume scrap (crude steel furnaces) are growing faster than China's ability to produce domestic scrap.

2) the PRC is pressing for particularly rapid growth in special steel production; the high quality scrap used to produce special steels in electric furnaces is rare in China and must be imported.

3) China's pig iron production is falling behind her domestic needs. Large open hearth furnace capacity will allow the Chinese to substitute scrap for pig iron in steel raw material mix.

The Affect of Lifting US Controls

Even if US scrap export controls are lifted, US-China scrap trade could continue to be inhibited by the position the PRC has taken with regard to previous contracts. The PRC

began to import scrap from the US in early 1973 -- slowly at first, but by summar large purchases were being arranged. When the US instituted scrap export controls against the PRC in January 1974, PRC contracts for delivery of 408,000 tons of scrap in 1974 at prices 20% to 50% below 1974 rates were annulled. (The US shipped 189,000 tons to China in early 1974 under unexpired 1973 contracts). Because China is a newcomer to the scrap market, the US government has offered special treatment with regard to quotas, but the Chinese have remained adamant, purchasing no scrap under the quotas. The PRC is maintaining that it will purchase no more US scrap until the annulled contracts are fulfilled at the original contract prices -- a bargin in todays market. China is likely to maintain this stance at least until scrap prices further recede. If some face-saving arrangement can be worked out, China could purchase as much as 500,000 tons of scrap from the US in 1975.

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